



The Future of Military Housing Privatization

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Office of the Secretary of Defense
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PHMA - January 22, 2007**



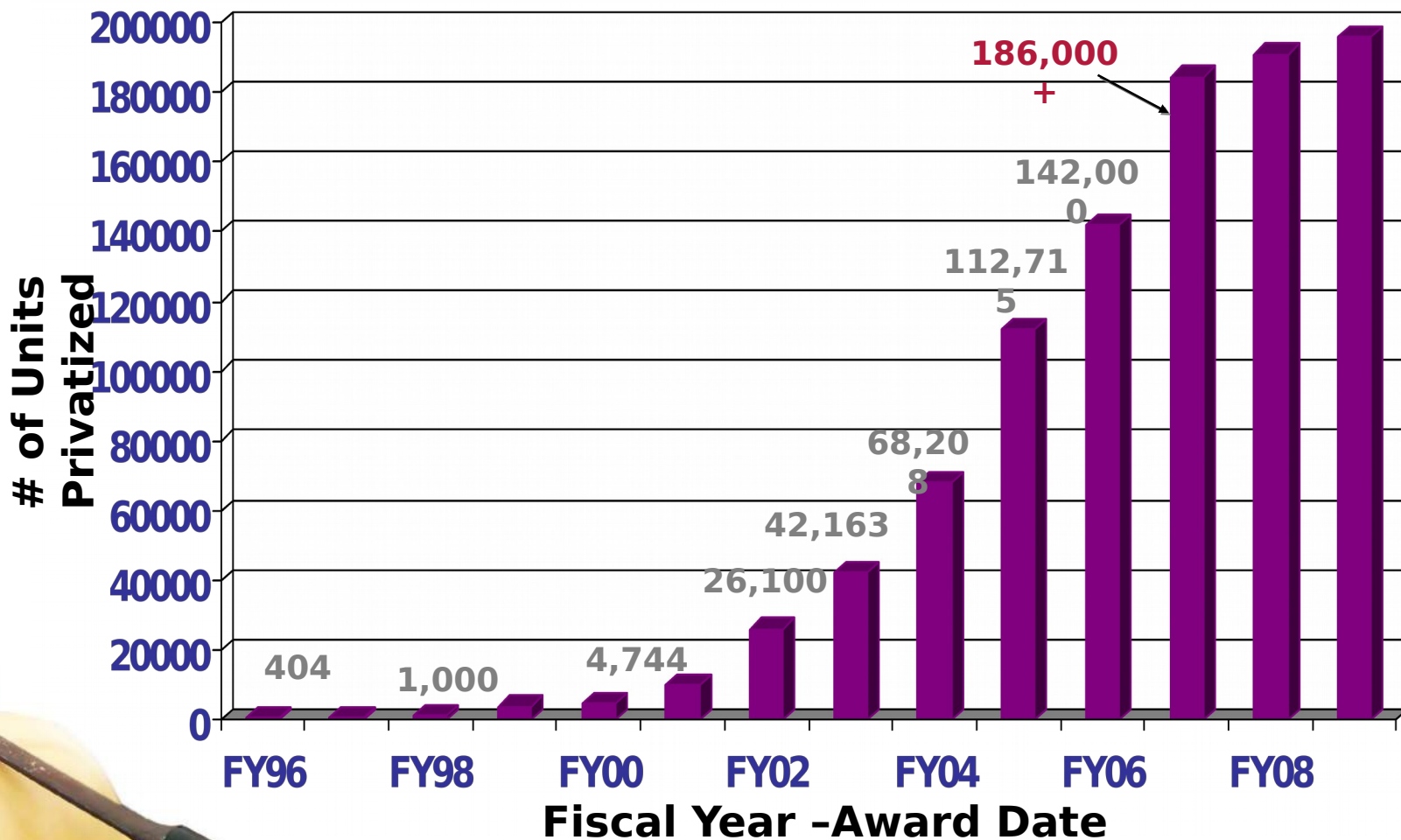
Overview

- Reaching the 2007 Goal
- Privatization After 2007
- The Great Privatization Debate
- Managing the Privatized Portfolio
- The Year Ahead





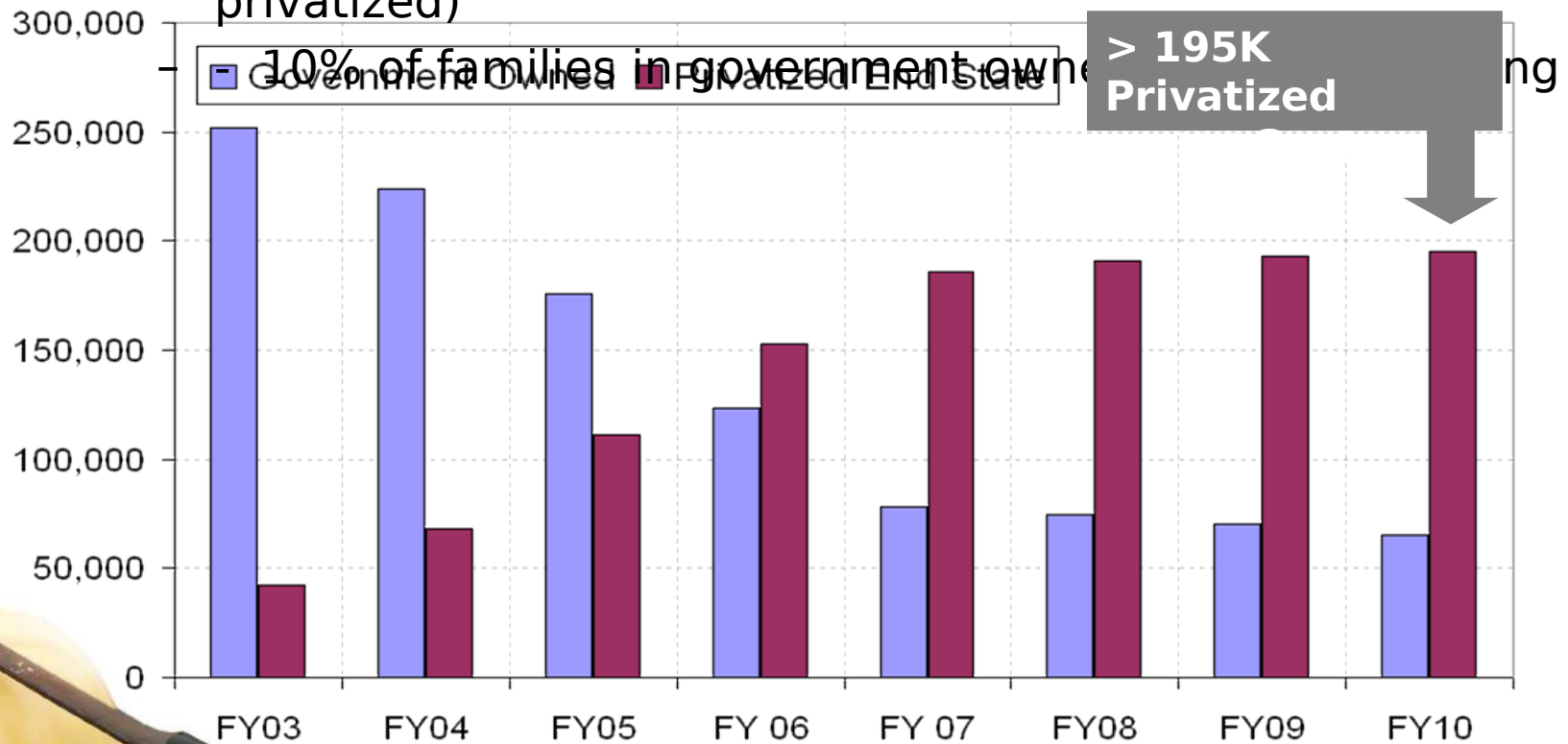
Awarded Privatization Projects





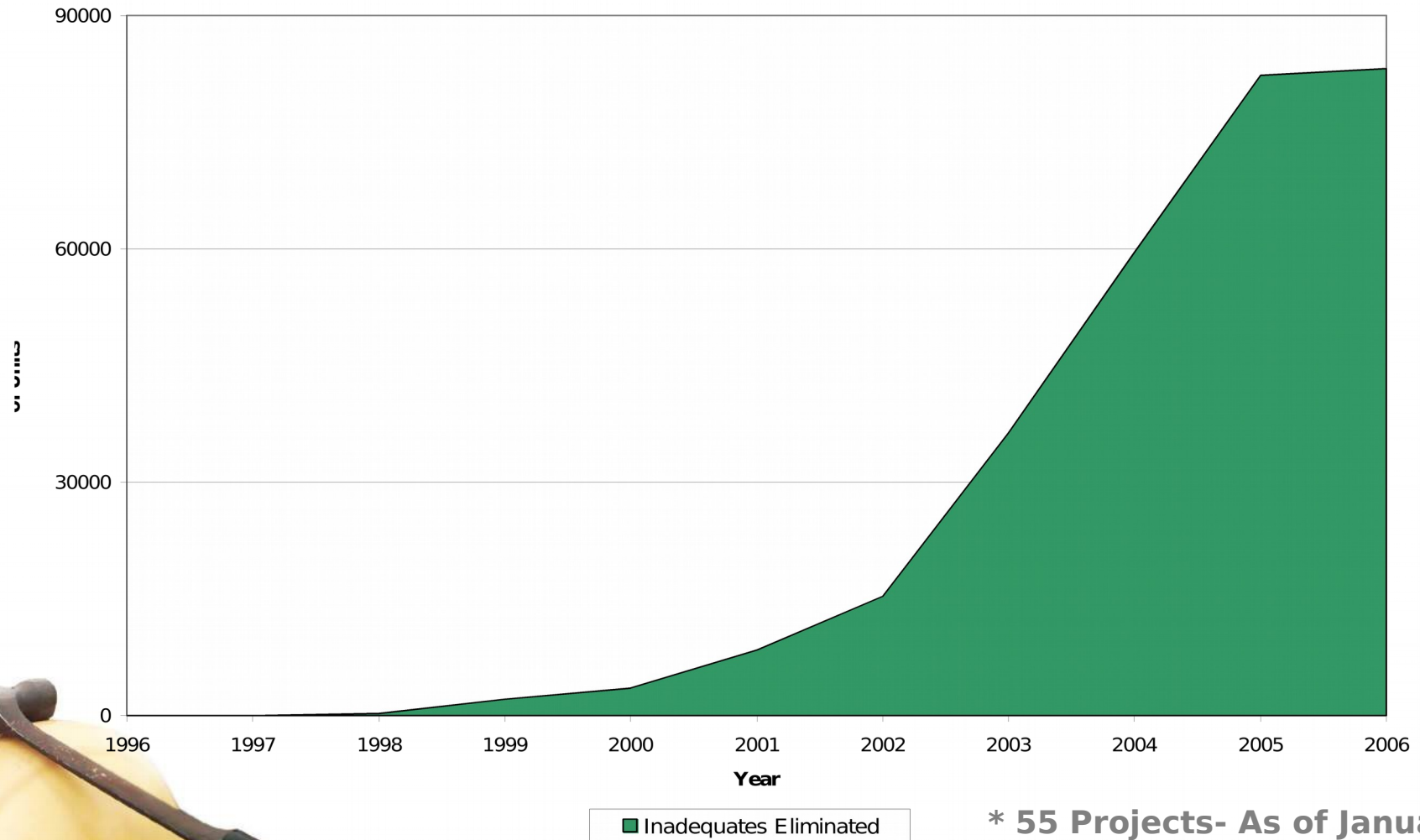
A Changing Ownership Structure

- Over 87% of existing U.S. inventory will be privatized by 2010
 - 90% of families will draw allowances (private sector + privatized)





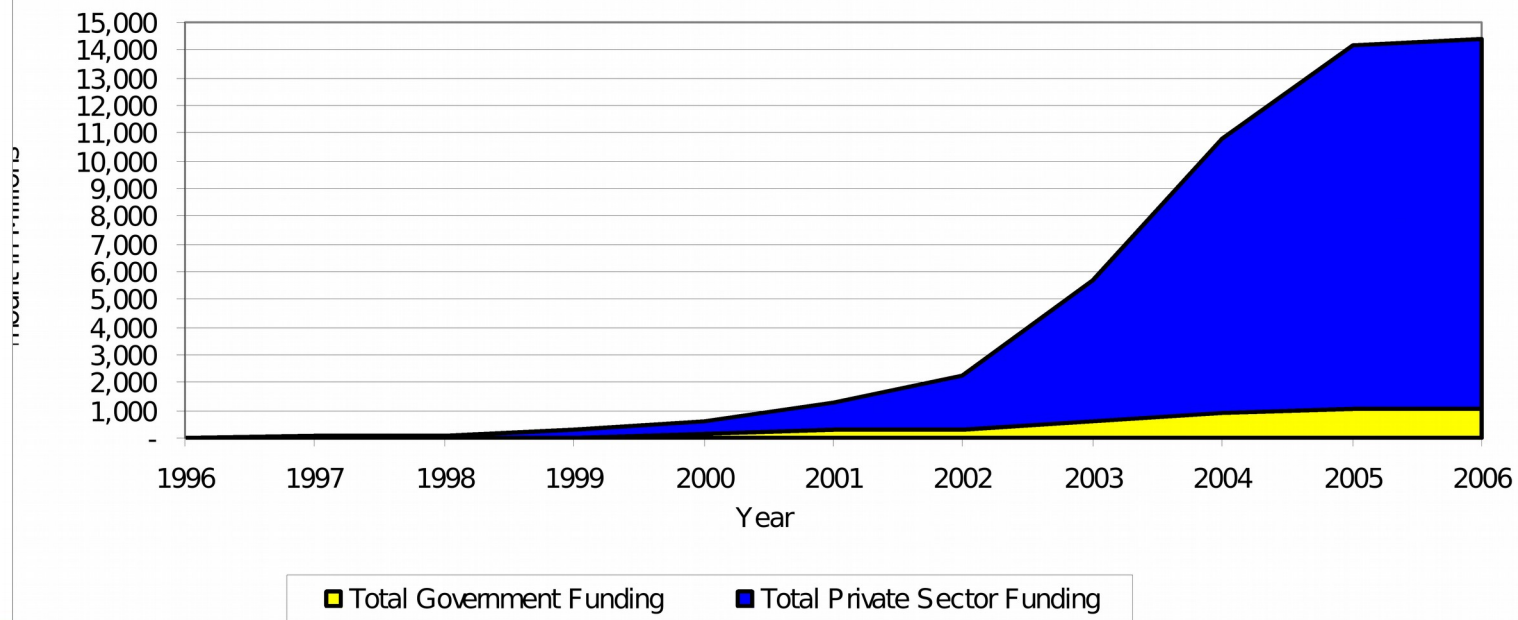
Progress Towards Adequacy



*** 55 Projects- As of January 2006**



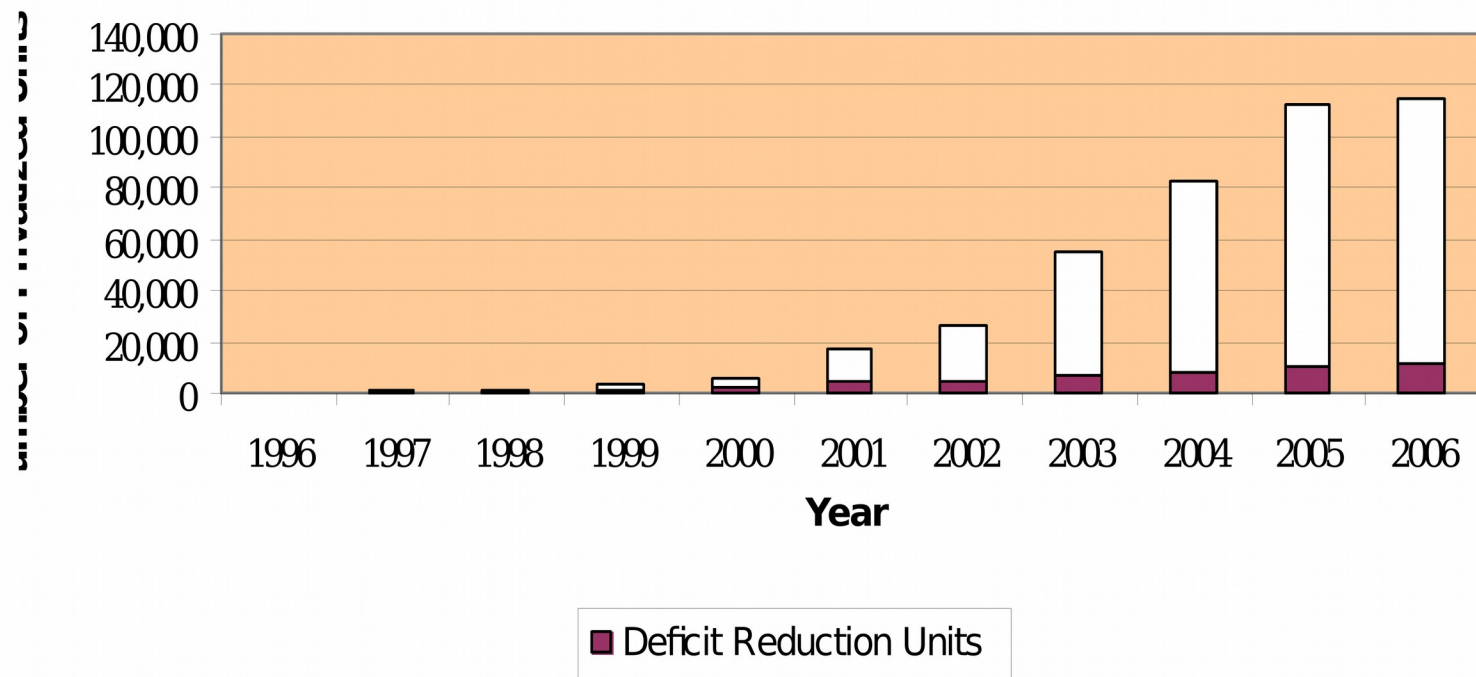
Total Project Funding (in millions)



* 55 Projects- As of January
2006



Total Privatized Units



* 55 Projects- As of January 2006



Privatization After 2007

- Family Housing
- Unaccompanied Housing
- Lodging
- Overseas Housing
- Enhanced Use Leasing
- Expanding the Use of the Privatization Principles





The Great Privatization Debate

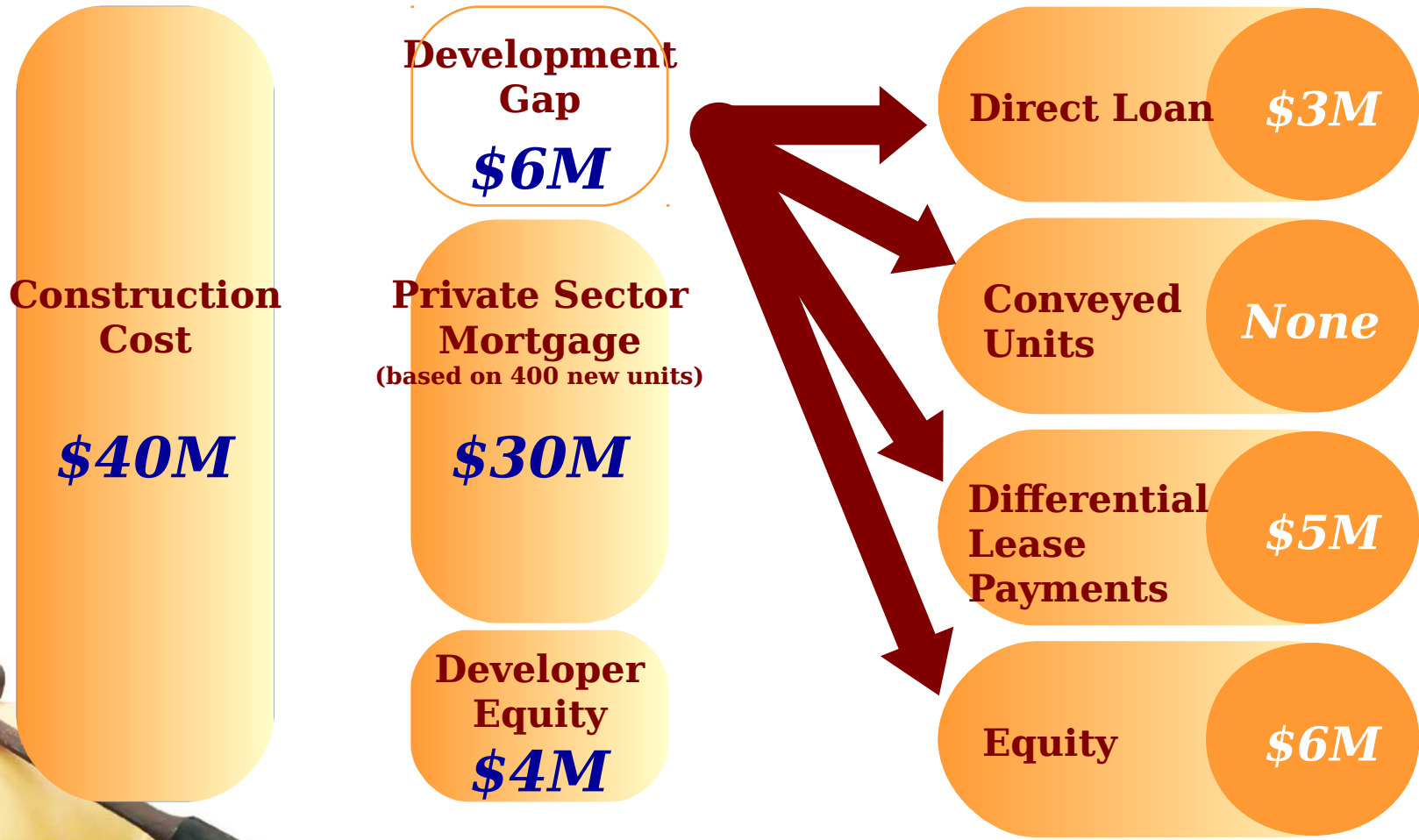
- Enactment of MHPI – 1996
- OMB Director Raines Memo – 1997
- Budget Cap Eliminated – 2003
- New OMB Circular A-11 - 2005
- New Credit Model – 2005
- New OMB Director's Memo – 2005
- The 2007 Goal





Financial Development Gap

Authority | Appropriation



Early Housing Privatization Principles (When Life was Easy)



- Ensure Valid Housing Requirements
- Leverage Appropriations by 3 to 1
- Long-Term Costs better/equal Milcon
- Ensure Competition
- Fix Enlisted Problem First





OMB Director's Memo

- A New "Raines Memo"
 - Issued 2 Aug 05
 - Meant to supplement the 25 Jun 97 Raines Scoring Memo
- "Guidance on the Use of Limited Liability Partnerships and Corporations in Military Housing"
 - Applicable to "Co-Owned LLC" Structures
- To Complete the President's Management Initiative:
 - LLCs Approved until 30 Sep 10
 - LLC's Approved for Barracks Privatization
 - After 2010 LLC's Scored Under "Traditional Rules"
- "Purely Private" entities scored under Raines
- Reporting DOD Privatization Plans to OMB



New Credit Scoring Rules

- From One “bucket” to Four
- Starting with the FY06 “Cohort” of Credit Deals (Projects Including Direct Loans or Loan Guarantees)
 - Projects are Evaluated based upon Four Factors (Project Characteristics)
 - Location
 - Financial
 - Occupancy
 - Housing Quality
 - Each Project Receives a Numerical Score and is Classified into One Credit Classifications
 - Each Classification has Risk and Recovery Rates
 - Adjusted Annually in Credit Model
- Complications and Debates





Managing the Privatization Portfolio

- Implementing the Financial and Business Structure to move:
 - From Asset Ownership and Control to Management of Real Property and Contract Interests
 - From Assignment of Occupants to Referral of Tenants
 - From Seeking Appropriations in the Budget to Monitoring Investments and Outstanding Debt
 - From Contracting for Construction Projects to Partnering in Housing and Community Development





The Changing Portfolio

- Integrated Projects
- Projects at Joint Bases
- Projects Expanding due to Realignment or Increased Recruitment
- Restructured Projects with Reduced Requirements





Why Project Integration?

- Private Sector Business Efficiency
- Compliance with the 33% and 45% investment limitations under 10 U.S.C. 2875
- Rich Project, Poor Project Problem
 - Requires Approval by the Limited Partner
 - Higher Approval Depends on the Nature and Terms of the Restructuring





Business Process Initiative (BPI)

- Identify Roles and Responsibilities
- Budget Preparation
- Project Approval
- Project Funding
- Budget Re-Estimates
- Accounting and Reporting





DOD and Extra-DOD Oversight

- PEP Report and Portfolio Management System
- Housing Choices Survey
- Office of Management and Budget
- Government Accountability Agency
- Congressional Committees
 - New SAC Committee Report Tracking Project
 - Maintenance and Funding in Reinvestment Accounts





The Year Ahead

- Meet 2007 Goal
- Promulgate Housing Manual
- Promulgate BPI
- Expand Privatization Principles
- Implement Housing Choices Study
- Define Barracks Problem and Plan Solution
- Enhance Privatization Professionals





Are There Any Questions?

